



PLEXUS
ENERGY LTD.

1997
Annual Report

Annual Meeting

The Annual Meeting of the shareholders will be held at 8:30 AM on June 23, 1998 at the offices of McManus Thomson, Barristers & Solicitors located at 2150, 530 - 8th Avenue S.W., Calgary, Alberta

Inter Corporation Presentation

An Inter Company Presentation (Plexus Energy Ltd., Peregrine Oil & Gas Ltd. and Invader Exploration Inc.) Will be held at 3:00 P.M. On June 23, 1998 at the 400 Club located at 710 - 4th Avenue S.W. Calgary, Alberta. Shareholders and all interested parties are encouraged to attend

Corporate Share Structure

Shares Issued and Outstanding		11,841,050
Stock Options	839,000	
Warrants	100,000	
Total Fully Diluted Shares		12,780,050
Escrowed Shares	1,892,100	
Approximate Public Float		9,948,950

Share Price

52 Week High: \$1.40

52 Week Low: \$0.55

Current Price: \$0.60

Corporate Officers and Directors

Al Morris, President, Director
Robert Hobbs, CFO, Secretary, Director

Robert McPherson, Director
Frank Elliott, Director

Plexus Energy

First Quarterly Report to Shareholders for the Three Months Ended March 31, 1998

Dear Shareholder:

Enclosed are the first quarter financial statements for the three months ended March 31, 1998.

The first quarter of 1998 was an active period for Plexus with the two Arkoma project wells drilled late in 1997 being tested and completed as potential gas wells, one additional project well was drilled and abandoned and one non-Arkoma project well was drilled and completed as a potential oil well. In addition, Plexus farmed out, for a GORR interest, minor land positions held in two wells drilled in the Bonanza area of western Arkansas. Plexus and its partners in the Arkoma project were also successful in acquiring substantial Federal leases at the March 26, 1998 U.S. Federal land sale.

Details of these events have been presented in Press Releases and are summarized as follows:

Alpine: The Rott #1-36 well drilled and cased, November 1997, as a potential gas well in the Pennsylvanian (Penn) Spiro sand formation (13 feet net pay) was production tested at 850,000 cubic feet per day (850 Mcf/d) and is being evaluated for production tie in for the second quarter of 1998.

Brightstar: The Lewis #1-26 well drilled and cased, late in 1997, as potential gas well in the Arbuckle carbonate formation was production tested at 100 to 150 Mcf/d and will be tied in, at minimum cost, to a low pressure line (60 psig) immediately adjacent to the well site. Tie in should be completed in the second quarter of 1998.

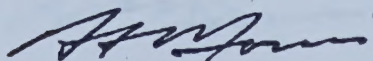
Crystal Springs: The Phillips # 1-35 exploration well was drilled to a depth of 8684 feet and abandoned to the base of the Penn sand formation due to the absence of commercial reservoir quality zones in the Hunton and Arbuckle formations. Because significant porosity was found in several of the Penn sand intervals, further testing and geological - geophysical review is being completed and with positive results, drilling on the Crystal Spring prospect would be contemplated for later in 1998.

Madden: The Madden # 2-27 well was drilled and cased as a potential oil well. Oil pay was indicated from logs in several Wilcox formation zones for a total of 55 feet of oil pay. The lowest zone, the McIlh, was production (swab) tested through perforations at a rate of 145 barrels per day. The well will initially be placed on production to evaluate this zone early in the second quarter of 1998. Plexus' working interest in the Madden well is 43.75%.

Bonanza Area: Plexus and its partner were not successful in acquiring sufficient leases to develop a drill site in the Bonanza prospect area, nor in obtaining a farm in from other major operators in the area. However, a well was proposed by one of the operators on a drill site that Plexus and its partner held a minor acreage position (80 acres). The decision was made to farm out our interest for a fixed GORR (Plexus: 0.594%). The well, Hodges # 1, was subsequently drilled and completed as a gas well and will be tied in to market early in 1998. A follow-up well, Black # 1-23 was prepared for drilling, in which Plexus held a minor acreage position (40 acres), this was also farmed out for a GORR (Plexus: 0.297%).

Acquisition of Federal Leases: On March 26, 1990, the joint venture was successful in acquiring 26,570 acres of U.S. federal leases which have 10 years primary term and flat 12.50% royalty rate. The acquisition gives the joint venture a significant land position in six new prospect areas. To date the Arkoma joint venture has acquired over 63,000 acres of prospective lands within the Arkoma basin.

On behalf of the Board of Directors, I wish to thank you for your continued support.



A.J. Morris
President

Plexus Energy

MESSAGE TO SHAREHOLDERS — YEAR 1997

During the past year Plexus Energy Ltd. continued to focus on the Arkoma exploration program of S.E. Oklahoma and Arkansas, by concentrating primarily on prospect generation and land acquisition. These objectives have been achieved through the combined efforts of the Arkana Operating Co. professional staff along with guidance and involvement of the highly qualified members of the participating companies located in Canada. More than thirty prospects have been generated to date and a total lease position of approximately 63,000 acres has been established throughout the prospects. These results reflect the commitment of all participants toward the success of this long term exploration project.

Current Revenues from Canadian producing properties continue to provide more than adequate funding for the corporations administrative requirements in Canada. It is anticipated that successful results from 1997 and early 1998 drilling in Oklahoma will provide U.S. funds to assist Plexus in meeting similar administrative and operational obligations relating to the Tulsa-based office. As noted in the 1997 financial statements a net write down of \$149,000 was reported. This was primarily a result of the Canadian properties having no offsetting tax resource pools. In light of this, Plexus position is being reviewed with respect to participation in future Canadian exploration opportunities.

Drilling Activity was initiated, late in 1997, on two prospects within the Arkoma project: Alpine (formerly referred to as Checotah) and Brightstar (formerly referred to as Keota # 3). Both wells in these prospects were cased as potential gas wells and by year end were awaiting testing and completion. A 3-D seismic program over the Madden oil prospect in central Oklahoma was completed and a potential drilling location defined. Drilling commenced at the chosen location, Madden # 2-7, late in December 1997. Plexus, along with it's partner, farmed out a minor lease interest (shallow rights only) held on a drill site in the Bonanza area of Arkansas. The well Hanna #1 was cased as a potential gas well, waiting on completion at years end.

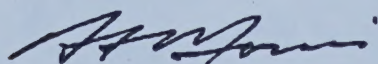
Details on these wells are included in the First Quarterly Report for 1998. A copy of the report is enclosed with the 1997 Annual report package.

The 1998 program will see the completion and placing on production of wells drilled in the later part of 1997 and early 1998 (refer to enclosed 1998 First Quarter Report) and the drilling of an additional 7 to 10 Arkoma prospect wells during the mid to later part of the year.

Pursuant to Corporate Objectives the evaluation of other exploration and / or property acquisition opportunities has been ongoing throughout the year. One of those considered, a high potential reef project in Texas, resulted in the directors of Plexus agreeing to sign a letter of intent to participate up to a maximum 10% working interest in the project, subject to certain terms and conditions. Further details will be forthcoming as this project develops to the full commitment stage.

The officers and directors wish to express their appreciation for the support of the shareholders of Plexus during the past year. We will continue to strive for the success and continued growth of the company.

On behalf of the Board of Directors



A.J. Morris
President

Plexus Energy

DAVIS, DAIGNAULT, SCHICK & CO.

TELEPHONE: (403) 262-3394

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CHARTERED ACCOUNTANTS

400. 665 - 8th STREET S.W., CALGARY, ALTA. T2P 3K7

AUDITORS' REPORT

To the Shareholders of:

PLEXUS ENERGY LTD.

We have audited the consolidated balance sheet of PLEXUS ENERGY LTD. as at December 31, 1997 and 1996 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the company as at December 31, 1997 and 1996 and the consolidated results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

CALGARY, Alberta
April 29, 1998

Davis, Daignault, Schick & Co.
CHARTERED ACCOUNTANTS



MEMBER OF SUMMIT INTERNATIONAL ASSOCIATES, INC.
A World Wide Association of Independent Accounting Firms

PLEXUS ENERGY LTD.

CONSOLIDATED BALANCE SHEET

DECEMBER 31

1997

1996

ASSETS

Current

Cash

\$1,703,380

\$ 651,712

Accounts receivable

334,481

165,438

2,037,861

817,150

Capital - Note 2

1,910,970

795,243

\$3,948,831

\$1,612,393

LIABILITIES

Current

Accounts payable

\$ 707,966

\$ 34,832

Income taxes payable

—

19,413

707,966

54,245

Provision for site restoration

7,104

3,290

SHAREHOLDERS' EQUITY

Share capital - Note 3

3,363,612

1,519,728

(Deficit) retained earnings

(129,851)

35,130

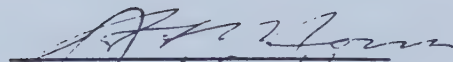
3,233,761

1,554,858

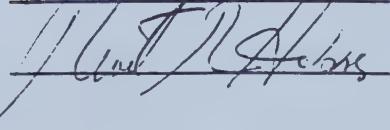
\$3,948,831

\$1,612,393

Director:



Director:



PLEXUS ENERGY LTD.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

	<u>1997</u>	<u>1996</u>
Revenue		
Oil and gas revenue net of royalties	<u>\$ 215,362</u>	<u>\$ 184,870</u>
Expenses		
Well operating	32,574	16,843
General and administrative	105,471	34,213
Depletion and amortization	<u>244,104</u>	<u>79,271</u>
	<u>382,149</u>	<u>130,327</u>
(Loss) income before income taxes	(166,787)	54,543
(Recovery of) income taxes - Note 4	<u>(1,806)</u>	<u>19,413</u>
Net (loss) income for the year	(164,981)	35,130
Retained earning, beginning of year	<u>35,130</u>	<u>—</u>
Deficit, end of year	<u>\$ (129,851)</u>	<u>\$ 35,130</u>
Earnings per share:		
Basic	<u>\$ (0.0151)</u>	<u>\$ 0.0044</u>
Fully diluted	<u>\$ (0.0129)</u>	<u>\$ 0.0029</u>

PLEXUS ENERGY LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31

	<u>1997</u>	<u>1996</u>
Cash was provided by (used for):		
Operating activities:		
Net (loss) income for the period	\$ (164,981)	\$ 35,130
Items not requiring a current cash outlay		
Amortization and depletion	240,290	75,981
Provision for site restoration	3,814	3,290
Loss on disposal of capital asset	<u>5,080</u>	<u>—</u>
	84,203	114,401
Changes in non-cash working capital balances:		
Accounts receivable	(169,043)	(165,438)
Accounts payable	673,134	34,832
Income taxes payable	<u>(19,413)</u>	<u>19,413</u>
	568,881	3,208
Investing activities:		
Purchase of oil and gas properties	(1,361,097)	(871,224)
Financing activities:		
Proceeds of share issue	<u>1,843,884</u>	<u>1,519,728</u>
Increase in cash	1,051,668	651,712
Cash, beginning of year	<u>651,712</u>	<u>—</u>
Cash, end of year	<u>\$1,703,380</u>	<u>\$ 651,712</u>
Cash flow per share:		
Basic	<u>\$ 0.0077</u>	<u>\$ 0.0143</u>
Fully diluted	<u>\$ 0.0066</u>	<u>\$ 0.0094</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND DECEMBER 31, 1996

Note 1: Significant accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

a) Basis of consolidation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Plexus Resources Inc.

b) Petroleum and natural gas properties

i) Capitalized costs

The company follows the full cost method of accounting for oil and gas operations, whereby all costs associated with the exploration for, and development of, oil and natural gas reserves are capitalized by cost centre. Such costs include property acquisition expenditures, geological and geophysical expenses, carrying charges of non-productive properties, costs of drilling productive and non-productive wells, and plant and production equipment costs. Financing and administrative costs are capitalized only to the extent that they are directly related to capital projects. Proceeds from the sale of any interests in oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a disposition would alter the rate of depletion by at least 20%.

ii) Depletion and amortization

Depletion of oil and gas properties is calculated using the unit-of-production method based on estimated net proven reserves, as determined by the company and reviewed yearly by independent consulting engineers. Natural gas production and reserves are converted to equivalent units of measure using a relative energy content.

Amortization of other equipment is provided using the declining balance method at rates ranging from 20% to 30% per annum.

iii) Developed properties - ceiling test

The company applies a ceiling test to the costs of developed properties to ensure that capitalized costs (net of accumulated depletion) do not exceed the estimated future net revenues from production of proven reserves less estimated future administrative, financing and income tax costs. Future net revenues are based on prices and costs prevailing at the year end.

Note 1: Significant accounting policies - continued

iv) Unproved properties

The company annually reviews the capitalized costs associated with unproved properties to determine whether they are impaired.

When costs are not likely to be recovered, a provision for impairment is made.

Unimpaired costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proved.

c) Future site restoration costs

Future site restoration and reclamation costs are amortized using the unit of production method. These costs are based on management's estimates of the anticipated costs of site restoration net of expected recoveries. Removal and site restoration costs will be charged against the accumulated provision as incurred.

d) Joint ventures

Substantially all of the company's oil and gas related activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the company's proportionate interest in such activities.

e) Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange in effect at the year end. Non-monetary assets and liabilities are translated at historic rates of exchange. Revenues and expenses are translated at average rates of exchange in effect during the year. Translation gains and losses are included in earnings except for unrealized gains and losses on non-monetary assets and liabilities which are deferred and amortized to earnings over the life of the related asset or liability.

f) Earnings and cash flow per share

Earnings per share amounts have been computed using the weighted average number of shares outstanding during the year. Fully diluted earnings per share assumes the exercise of all options and warrants.

g) Financial instruments

The company's financial instruments consist of cash and short term investments, accounts receivable, accounts payable and accrued liabilities. The carrying amounts of these financial instruments approximate their fair value due to their short term maturity and capacity of prompt liquidation.

Note 2: Capital assets

i) 1997

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Oil and gas properties	\$2,202,572	\$ 311,568	\$ 1,891,004
Other equipment	<u>23,772</u>	<u>3,806</u>	<u>19,966</u>
	<u>\$2,226,344</u>	<u>\$ 315,374</u>	<u>\$1,910,970</u>

ii) 1996

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Oil and gas properties	\$ 863,640	\$ 74,843	\$ 788,797
Other equipment	<u>7,584</u>	<u>1,138</u>	<u>6,446</u>
	<u>\$ 871,224</u>	<u>\$ 75,981</u>	<u>\$ 795,243</u>

During the year ended December 31, 1997 the company capitalized \$64,550 (1996 - \$2,954) of general and administrative expenditures relating to exploration and pre-production activities.

The cost of unproven properties excluded from the depletion base as at December 31, 1997 was \$1,419,192 (1996 - \$80,260).

Oil and gas properties with a net book value of \$98,313 and (1996 - \$282,946) have no tax base.

The company has booked an additional write-down of oil and gas properties included in accumulated amortization of \$150,000 as a result of application of the ceiling test described in Note 1 b) iii).

Note 3: Share capital

a) Authorized:

- An unlimited number of common shares
- An unlimited number of non-voting preferred shares issuable in one or more series

Note 3: Share capital - continued

b) Issued:

i) 1997

	<u>Number of Shares</u>	<u>\$</u>
Common shares		
Outstanding, December 31, 1996	8,028,550	\$1,736,545
Issued on exercise of warrants	2,954,500	1,477,250
Shares cancelled	(1,000)	—
Issued on exercise of stock options	<u>859,000</u>	<u>377,500</u>
	<u>11,841,050</u>	3,591,295
Share issue costs		<u>(227,683)</u>
December 31, 1997		<u>\$3,363,612</u>

ii) 1996

	<u>Number of Shares</u>	<u>\$</u>
Common shares		
Issued through public offering	3,000,000	\$1,200,000
Issued through private placement	4,201,000	200,975
Issued as part consideration on property acquisition	782,050	312,820
Issued on exercise of warrants	<u>45,500</u>	<u>22,750</u>
	<u>8,028,550</u>	1,736,545
Share issue costs		<u>(216,817)</u>
December 31, 1996		<u>\$1,519,728</u>

c) 1,892,100 of the issued shares are subject to escrow trading restrictions.

d) Common share purchase warrants

	<u>Number of Warrants</u>
Balance, December 31, 1996	3,054,500
Exercised	<u>(2,954,500)</u>
Balance, December 31, 1997	<u>100,000</u>

The 100,000 warrants outstanding at December 31, 1997 entitle the holder to purchase one common share for each warrant held at a price of \$0.53, expiring on September 23, 1998.

Note 3: Share capital - continued

e) Stock options

	<u>Number of Options</u>
Balance, December 31, 1996	1,398,000
Additional options granted	300,000
Options exercised	<u>(859,000)</u>
Balance, December 31, 1997	<u>839,000</u>

The 839,000 stock options outstanding at December 31, 1997 were issued to directors and consultants of the company. As at December 31, 1997 the company had outstanding stock options as follows:

<u>Number of Shares</u>	<u>Exercise Price Per Share</u>	<u>Expiry Date</u>
549,000	\$0.40	September 23, 1998
40,000	\$0.79	February 20, 2002
50,000	\$0.76	March 5, 2002
200,000	\$0.70	April 23, 2002

Note 4: Income taxes

Income taxes differ from the results which would be obtained by applying the combined federal and provincial income tax rates to earnings before income taxes.

The difference results from the following:

	<u>1997</u>	<u>1996</u>
Effective tax rate	<u>44%</u>	<u>44%</u>
Computed expected tax provision	\$ (73,386)	\$ 23,999
Effect on taxes of:		
Non-deductible payments	4,486	1,344
Depletion on assets without tax base	81,239	13,145
Resource allowance	—	(5,885)
Share issue costs deducted for tax purposes	(20,036)	(16,715)
Other	<u>5,891</u>	<u>3,525</u>
	<u>\$ (1,806)</u>	<u>\$ 19,413</u>

Note 5: Segmented information

The company is involved in the acquisition, exploration, development and production of petroleum and natural gas resources in Canada and the United States of America. Assets and operations by geographic region are as follows:

	<u>1997</u> <u>Canada</u>	<u>1996</u> <u>Canada</u>	<u>1997</u> <u>United States</u>	<u>1996</u> <u>United States</u>
Revenue	\$ 215,362	\$ 184,870	\$ —	\$ —
Operating (loss) income	(164,981)	35,130	—	—
Identifiable assets	2,045,070	1,352,531	1,903,761	259,682
Capital expenditures	22,165	790,964	1,338,932	53,260

Note 6: Investment in joint venture

During 1996 the company entered into a joint venture agreement whereby it will participate in the acquisition of and exploration for oil and natural gas properties in the United States of America.

As of December 31 the company's proportionate share of the joint venture's assets and liabilities were as follows:

	<u>1997</u>	<u>1996</u>
Cash	\$ 124,173	\$ 149,565
Accounts receivable	241,409	—
Oil and gas properties	68,849	26,845
Accounts payable	(434,431)	—

Note 7: Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

